April 6, 2009

National Credit Union Administration
c/o Mary Rupp
Secretary of the Board
1775 Duke Street
Alexandria, VA 22314-3428

Re: Alliant Credit Union Comments on Advance Notice of Proposed Rulemaking, 12 CFR Part 704

Dear NCUA:

The following is submitted by Alliant Credit Union ("Alliant"), Charter No. 67955, headquartered in Chicago, Illinois as its comments to the National Credit Union Administration's ("NCUA's") Advance Notice of Proposed Rulemaking ("ANPR"), 12 CFR Part 704, on the role of corporate credit unions in the credit union system.

I. Background of Alliant and Its Relationships With Corporate Credit Unions

Alliant is an Illinois state chartered, NCUSIF insured credit union with approximately $6 billion in assets. Alliant maintains relationships with multiple corporate credit unions and is a member-owner of two (2) corporate credit unions. The services that Alliant utilizes from corporate credit unions and/or their affiliated CUSOs include the following:

- Investments and Liquidity (overnight and term deposits and lines of credit)

- Liquidity Management (payment, settlement, and correspondent services including item processing, lock box, security safekeeping, wire transfers, ACH, and e-deposits)

Alliant does not exclusively utilize corporate credit unions for the above services and engages in a competitive process, which includes service providers outside the corporate credit union system, in awarding business. Indeed, for any of the above services, Alliant would be able to (and in some cases has) utilized service providers who are not corporate credit unions or their affiliates.

Regardless, Alliant has chosen to use corporate credit unions for the above services for four (4) main reasons. First, corporate credit unions have consistently offered competitive, and in some cases best pricing (whether rate giveback or cost) for the above services. Second, corporate credit unions offer consistently high quality service on the above offerings, particularly in terms of reliability and effective problem resolution. Third, historically, Alliant has been able to depend on corporate credit unions, as member-owned institutions within the credit union system, to provide the above services over the long term, avoiding inefficient and disruptive decoupling and/or conversions to other systems that are often prompted by significant corporate restructuring, including takeovers, within the for-profit sector. Finally, as a member-owner of corporate credit unions, Alliant has experienced (with most corporate credit unions) greater access to information (allowing for enhanced due diligence) and more input on future direction of corporate offerings.

Based on the above considerations, Alliant has consistently selected corporates (over non-credit union competitors) for liquidity and liquidity management (payments, settlements, and correspondent services). Alliant considers these to be core corporate services (that the corporates have been uniquely positioned to provide at competitive rates combined with high service and short and long term dependability levels).

II. Alliant's Comments On NCUA's ANPR

In its ANPR, NCUA has requested comments in six (6) general areas, which include (1) role (and structure) of corporates in the credit union system, (2) corporate capital, (3) permissible investments, (4) credit risk management, (5) asset liability management, and (6) corporate governance. Within several of the general areas, NCUA has requested comment on specific sub areas or topics. Alliant's comments, set forth below, cover the general areas and sub-topics within each general area upon which Alliant has a perspective or opinion.

In summary, while Alliant believes that change is required in the corporate credit union system, Alliant believes that only limited NCUA rulemaking (as noted below) would be required to effectuate such change. Alliant believes that most change can be made through NCUA's continued oversight and implementation of its examination and supervisory powers over corporate credit unions (already contained in the Federal Credit Union Act and NCUA's regulations) as well as by the corporate credit unions themselves.

A. Role and Structure of Corporate Credit Unions

Alliant believes that some changes are warranted to the current structure of the corporate credit union system. These beliefs are predicated on the following:

- Liquidity and liquidity management (settlement, payment and correspondent services) are desirable services that corporates can and have offered at competitive pricing combined with a high degree of reliability, short and long term dependability, and problem resolution.

- Given the low margins in the liquidity and liquidity management businesses, to stay competitive and to sustain value, over time, liquidity and liquidity management services require the enhanced efficiencies achieved through greater scope and scale.

- Scope and scale efficiencies can be achieved through strategic consolidation of the corporate credit union system (which has started to take place in recent years through voluntary mergers).

- In light of the current financial condition of corporates, capital accumulation is a priority. Consolidation within the corporate credit union system will also enhance the ability of surviving corporates to accumulate capital.

- Despite the efficiencies desirable through combination, competition among corporates for business has resulted in better pricing and service and, as a result, competition (in some form) remains a desirable outcome for the future.

Given the above, Alliant believes that the most pressing issues regarding corporate credit union role and structure are enhancing efficiencies of core liquidity and liquidity management services through elimination of the two-tier system and consolidation of the remaining corporate credit union system.

1. Elimination of Two-Tier System

Alliant does not believe that a two-tiered corporate system is either necessary or desirable. The large, retail corporate credit unions (as described in the ANPR, p. 9) can provide the services that credit unions desire without reliance on a wholesale corporate credit union, U.S. Central. For the most part, the large, corporate retail credit unions have demonstrated this fact over time. For example, although large, retail corporates have investment positions (of varying degrees) with U.S. Central, they have significant portfolios outside the system. More notably, they provide a full range of desired liquidity and liquidity management services wholly independent of U.S. Central.

Indeed, the need for a wholesale corporate credit union is predicated on the continued existence of smaller, regionally focused retail corporates. While these smaller corporates provide good relationship based service to their natural person credit union customers, to a large degree, they are able to provide services to natural person credit unions on a pass through basis to U.S. Central. As explained below, the continued existence of a dispersed and independently owned and operated corporate system is contrary to the necessary consolidation of the system. If consolidation is implemented, a wholesale corporate is no longer necessary.

Elimination of the two-tier system will also eliminate inefficient redundancy (layering) of capital and reduce systemic risk resulting from cascading exposures (i.e., retail corporates to the wholesale corporate, natural person credit unions to retail corporates).

2. Consolidation of Corporates, With Preservation of Competition

Consolidation of corporates is necessary to drive efficiencies in the low margin liquidity and liquidity management businesses and to enhance rapidity of needed capital accumulation. Alliant believes that the best result for member credit unions would be the consolidation of all corporates into four (4) to six (6) surviving corporate entities who would primarily serve the natural person credit union in their regions but who could also serve any member credit union within a national field of membership ("FOM").

Competition among corporates has served member credit unions, like Alliant, well, through better rates and service. Some will argue that competition has contributed to the current crisis, by yielding compressed margins for corporates, combined with lower return on assets and reduced capital accumulation. Others argue that competition has also fragmented innovation and generally eroded cooperation among corporates as they have competed with each other for business.

Alliant believes that further consolidation combined with effective risk management can mitigate the financial impacts to corporates of continued competition amongst each other. Alliant also believes that cooperation through total consolidation of certain "utility" operations, particularly in the area of payment operations, should be encouraged or even mandated by NCUA (if voluntary cooperation cannot be maintained). There is limited opportunity for differentiation in these "utility" operations and consolidation would maximize scale economies. Such cooperation through total consolidation of certain operations can be achieved without further limiting competition amongst surviving corporates.

If competition is limited, such as restricting surviving corporates to a defined geographic FOM, thus eliminating national FOMs, Alliant fears that the rate and service advantage it historically has enjoyed with corporate partners would dissipate. Indeed, if a limited FOM approach was considered best for sustaining the corporate system (primarily due to service requirements for small, regionally based credit unions within a respective geography), a result with which we do not agree, it would be preferable to simply consolidate the entire corporate system into one in order to maximize scale economies (and perhaps have regional "retail" outlets of the remaining corporate to manage relationships with member credit unions within designated geographies).

B. Corporate Capital

Corporates must take risk if they are to provide value to member credit unions and must maintain capital levels appropriate to the risks assumed. Further, as the current crisis has demonstrated, corporates cannot anticipate and fully mitigate all risk events. Adequate capital, therefore, is protection against the limits of knowledge and foresight. Further, as a priority, NCUA must seek ways to protect and preserve member capital positions in corporates (and the NCUSIF), now and into the future. With this in mind, Alliant believes that the corporate system needs to accumulate capital, and that a key driver of accumulation will be consolidation.

As for measuring capital requirements, Alliant supports a risk-based capital requirement (consistent with that currently required of other federally regulated financial institutions) and encourages NCUA to implement regulations to that effect. Alliant further supports the notion (consistent with the need to build capital within the corporate system within the context of healthy competition), that natural person credit unions should be required to maintain a contributed capital account with a corporate as a prerequisite of obtaining services. That amount of contributed capital should be a function of share balances maintained with the corporate and not based on asset size (which would inhibit, not encourage, healthy competition).

C. Permissible Investments

It is appropriate for NCUA to prohibit certain categories of investments such as those cited to the ANPR, p. 13 (CDOs, NIMs, subprime and Alt-A asset backed securities). Nevertheless, such limitations address past versus future investment decisioning. Going forward, Alliant encourages NCUA to implement fully its supervisory and examination authorities to oversee and, when appropriate, negate the investment choices of corporates. This does not mean that current corporate regulatory authority should be constricted. Given their lines of businesses—focused on liquidity and liquidity management--corporates require a wider range of short-term investment alternatives combined with more extensive investment and risk management infrastructure and expertise (as compared to natural person credit unions).

As a result, NCUA should proactively monitor investment decisions of corporates. While corporates have oftentimes been able to enter into new investment types without approval, Alliant encourages NCUA to further develop processes whereby the agency (or a qualified third party) examines and approves a new category of corporate investment, including evaluating and certifying the corporate's ability to manage that type of investment, before it goes on a corporate's balance sheet.

D. Credit Risk Management

Security purchases by corporates have been too dependent on rating agencies, which have failed to perform. As a result, any decision to correct existing practices through further reliance on ratings would be misplaced. Until rating agency performance is improved, the financial services industry should rely less, not more, on rating agency recommendations.

In lieu of less or greater reliance on ratings, NCUA should adopt enhanced review and approval processes, referenced above, that require NCUA approval before a corporate places a new category of security on its balance sheet. Most importantly, NCUA should consider additional practices that monitor and control concentration risk. The current corporate credit union crisis resulted not because corporates placed a new type of security on their balance sheets, but because of the concentration of those securities on balance sheets. Going forward, prudent credit risk management requires more balance sheet optimization through diversification of assets, avoiding undue concentration (as is currently the case). Nevertheless, caution should be taken to avoid rules that would force excessive diversification (i.e., that would lead corporates to purchase investments with poor risk/return characteristics simply to satisfy diversification requirements).

E. Asset Liability Management

Alliant believes that corporates should not only be required to perform net interest income modeling and stress testing, but that corporates should institute "best practices" in asset liability management ("ALM") as they become available. This would include the use of external, expert reviews of a corporate's ALM modeling process and results.

As a member-owner, Alliant also believes that results of corporate ALM modeling must be shared on a regular basis with not only NCUA, but with the corporate's member-owners. A heightened and greater level of transparency in this area will help improve the overall efficacy of the corporate system, going forward.

F. Corporate Governance

Alliant believes that NCUA should set forth, by regulation, some minimum qualifications for service on a corporate's Board of Directors. Given the importance of investments and risk management to the liquidity and liquidity management lines of business, one direction would be to require at least one "capital markets expert" on the Board, consistent with the financial expert requirement for publicly traded company audit committees contained in Sarbanes-Oxley Section 404.

Beyond regulatory mandate, Alliant believes that the member-owners of corporates should insist that corporates employ governance "best practices," particularly as this relates to the composition and structure of the Board of Directors. Some best practices would include term limits, new member on-boarding and orientation, mandatory annual training, and peer reviews. Modest and equitable compensation for time is also a best practice that needs serious consideration. While outside directors (directors outside the credit union system) may be beneficial (particularly if an outside director provides capital markets expertise), requiring an outside director through regulation, in and of itself, does not necessarily serve a good governance purpose.

At the same time, there is current concentration in make-up of Board of Director members within same job title, namely CEO (of a natural person credit union). To better diversify their Board talent, corporates could place outside directors on their Boards. As an alternative, corporates could diversify by drawing upon a wider scope of experience within their own member owners. Beyond the current crisis (and despite their divergent lines of business), corporates share many of the same business challenges as their natural person credit union owners (challenges including long term planning, enterprise risk management, regulatory and legal compliance, and talent acquisition and management, to name a few). The credit union system is full of talent at the executive level, beyond CEO, who could provide needed and desired diversity to the Boards of corporates and provide effective oversight and guidance relative to current and future business challenges.

Respectfully submitted,

David W. Mooney
President & CEO

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